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NEWS RELEASE

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PSC GRANTS INTERIM RATE RELIEF TO EAST KENTUCKY POWER *Immediate \$19 million increase is justified by EKPC's deteriorating finances*

FRANKFORT, Ky. (April 2, 2007) – The Kentucky Public Service Commission (PSC) has granted an immediate rate increase to East Kentucky Power Cooperative Inc. (EKPC), saying the increase is needed to maintain the utility's financial and operational viability.

Since suffering an unplanned outage in 2004 at one of its electric generating facilities, "East Kentucky's financial condition has steadily and consistently deteriorated and shows no immediate signs of improvement," the PSC said in an order released today.

The financial problems threaten to impair EKPC's operations, which could affect the reliability of service to the 16 distribution cooperatives to which it provides electricity, the PSC said. EKPC is owned by those distribution cooperatives, which serve about 500,000 customers in 89 Kentucky counties.

EKPC's financial condition is the subject of a PSC investigation which began last year.

The interim rate adjustment effective April 1 will increase EKPC's annual revenues by about \$19 million. The rate increase will be passed through to the customers of the distribution cooperatives, with specific increases to be determined for each cooperative in the next 10 days.

EKPC applied on Feb. 6, 2007, to increase its annual revenues by \$43 million. That request remains pending before the PSC.

A utility normally must wait at least five months before putting any proposed new rates into effect. When it asked for the \$43 million increase, EKPC, citing its financial condition, asked to be allowed to put the rates into effect immediately.

The request for immediate rate relief was later revised to \$19 million on an annualized basis, based on an agreement with other parties to the case, including the Kentucky Office of Attorney General.

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Regardless of whether proposed rates are put into place after five months or are allowed to take effect immediately, if the PSC eventually grants a smaller increase customers are entitled to a refund of the difference, with interest.

In the order, the PSC noted a number of factors that have contributed to EKPC's financial condition. The power plant outage forced EKPC to purchase electricity from outside its system, driving up its costs. EKPC also faces possibly having to pay substantial penalties to the U.S. Environmental Protection Agency for alleged violations at some of its generating facilities.

The utility has borrowed money to finance new generation facilities, driving up its interest expenses. As a result, EKPC's credit ratings have declined, making it more expensive for the utility to borrow additional funds.

Furthermore, EKPC faces additional costs associated with the Army Corps of Engineers' lowering of Lake Cumberland during repairs to Wolf Creek Dam. EKPC will have to spend about \$25 million to maintain operations at its Cooper generating station, which draws water from the lake, and also faces the prospect of having to purchase higher-cost electricity to replace inexpensive hydroelectric power it normally receives from the Corps of Engineers' own power station at Wolf Creek Dam.

The PSC noted that EKPC currently is unable to meet certain requirements of its loan agreement with the Rural Utilities Service (RUS), the federal agency which lends money to electric cooperatives at favorable interest rates.

"East Kentucky's financial viability appears at this point to be almost entirely within the discretion and good grace of RUS," the PSC said in the order. "But for the willingness of RUS to forebear from making any declaration of default...East Kentucky would be insolvent."

Because of EKPC's circumstances, the PSC ordered the utility to begin providing additional financial information, including monthly reports of revenues and expenses. Financial monitoring will continue at least until the PSC completes its review of EKPC's request for its full rate increase.

The order and related documents are available on the PSC Web site, psc.ky.gov. The case number is 2006-00472. The financial condition investigation is case number 2006-00455.

The PSC is an independent agency attached for administrative purposes to the Department of Public Protection in the Environmental and Public Protection Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in the Commonwealth of Kentucky and has approximately 110 employees.